MID-EASTERN COUNCIL ON CHEMICAL ABUSE
Iowa City, Iowa

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
June 30, 2004 and 2003

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MID-EASTERN COUNCIL ON CHEMICAL ABUSE
BOARD OF DIRECTORS AND MANAGEMENT
June 30, 2004

BOARD OF DIRECTORS

Name	Title	Term Expires
Chief R.J. Winkelhake	President	2005
Jeff Edberg	Vice-President	2007
Phil Reisetter	Treasurer	2005
Karen Moline	Secretary	2007
Stephan Arndt	Member	2006
Jean Bartley	Member	2005
Alice DeRycke	Member	2006
Carol Thompson	Member	2006
Billy Campion	Member	2006
Jack Dillon	Member	2005
Valarie Lovaglia	Member	2007
Mark Behlke	Member	2007
Erin Brothers	Member	2007

MANAGEMENT

Name	Title
Arthur J. Schut	President
Ronald Berg	Vice President
Steve Nath	Fiscal Officer
Jill Liesveld	Medical Director
Fonda Frazier	Clinical Director

Independent Auditor's Report

Board of Directors
Mid-Eastern Council on Chemical Abuse
Iowa City, Iowa

We have audited the accompanying statements of financial position of the Mid-Eastern Council on Chemical Abuse (MECCA) as of June 30, 2004 and 2003 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of MECCA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MECCA as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 30, 2005 on our consideration of MECCA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Cedar Rapids, Iowa
August 30, 2005

FINANCIAL STATEMENTS

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
STATEMENTS OF FINANCIAL POSITION
June 30, 2004 and 2003

ASSETS

	2004	2003
CURRENT ASSETS		
Cash	$ 115,177	$ 67,731
Accounts receivable	448,448	424,663
Unconditional promises to give - United Way	-	32,385
Supplies inventory	5,000	10,000
Prepaid expenses	34,673	34,104
Deposits	1,867	6,867
Total current assets	605,165	575,750
PROPERTY AND EQUIPMENT		
Land	327,049	243,049
Buildings and improvements	3,404,198	2,556,044
Leasehold improvements	86,733	86,733
Furniture, fixtures and equipment	945,379	862,356
Total	4,763,359	3,748,182
Less accumulated depreciation	1,025,306	870,467
Net property and equipment	3,738,053	2,877,715
TOTAL ASSETS	$ 4,343,218	$ 3,453,465

LIABILITIES AND NET ASSETS

	2004	2003
CURRENT LIABILITIES		
Accounts payable	$ 281,692	$ 101,654
Notes payable to bank	504,652	-
Accrued expenses:		
Salaries and vacation pay	441,543	465,645
Interest	18,825	10,203
Payroll taxes	1,216	3,013
Real estate taxes	33,930	-
Unearned revenue	32,392	18,840
Current maturities of long-term debt	84,084	55,134
Current maturities of obligations under capital leases	19,456	12,243
Total current liabilities	1,417,790	666,732
LONG-TERM LIABILITIES		
Long-term debt, less current maturities above	2,802,212	2,264,180
Obligations under capital leases, less current maturities above	57,991	44,337
Security deposits	4,280	4,500
Total long-term liabilities	2,864,483	2,313,017
Total liabilities	4,282,273	2,979,749
NET ASSETS		
Unrestricted	60,945	473,716
TOTAL LIABILITIES AND NET ASSETS	$ 4,343,218	$ 3,453,465

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2004 and 2003

	2004	2003
Public support and revenue		
Net client fees:		
Residential services	$ 2,190,253	$ 2,144,636
Nonresidential services	2,227,727	2,023,609
	4,417,980	4,168,245
Iowa Department of Public Health:		
Prevention programs	153,604	159,857
Other grants and contracts	614,735	470,926
Counties	362,803	353,533
Iowa City and Coralville	30,729	31,942
United Way of Johnson County	41,158	41,310
Donations	10,689	7,405
Rental income	72,200	39,684
Interest income	743	2,681
Miscellaneous	73,048	67,917
Total public support and revenue	5,777,689	5,343,500
Expenses		
Program services	4,858,227	4,145,953
Support services, management and general	1,332,233	1,150,315
Total expenses	6,190,460	5,296,268
Change in net assets	(412,771)	47,232
Net assets, beginning of year	473,716	426,484
Net assets, end of year	$ 60,945	$ 473,716

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
STATEMENT OF FUNCTIONAL EXPENSES
Years Ended June 30, 2004 and 2003

	2004		
	Program Services	**Support Services, Management and General**	**Total**
Salaries and related expenses	$ 3,245,319	$ 923,418	$ 4,168,737
Contract services and grants	414,058	-	414,058
Program costs	69,229	-	69,229
Professional fees	9,599	27,351	36,950
Travel and conferences	34,625	49,662	84,287
Groceries	209,498	-	209,498
Supplies and printing	149,374	21,436	170,810
Medical services and supplies	55,230	-	55,230
Telephone	49,172	10,441	59,613
Depreciation	186,618	9,455	196,073
Utilities	76,130	10,732	86,862
Real estate taxes	28,769	-	28,769
Repairs and maintenance	122,126	13,389	135,515
Equipment rental and repair	17,548	12,873	30,421
Insurance	18,418	34,489	52,907
Staff development	15,255	9,874	25,129
Rent expense	132,688	11,202	143,890
Interest	2,149	169,744	171,893
Promotional and education	12,593	8,891	21,484
Dues and subscriptions	916	5,189	6,105
Loss on disposition of assets	-	11,602	11,602
Miscellaneous	8,913	2,485	11,398
Total expenses	$ 4,858,227	$ 1,332,233	$ 6,190,460

2003		
Program Services	Support Services, Management and General	Total
$ 2,903,651	$ 802,585	$ 3,706,236
177,934	-	177,934
58,559	-	58,559
24,163	26,470	50,633
38,789	43,351	82,140
191,162	-	191,162
116,800	14,319	131,119
50,655	-	50,655
47,974	8,875	56,849
157,123	7,262	164,385
68,703	7,418	76,121
-	-	-
83,705	12,315	96,020
18,874	15,828	34,702
16,658	29,005	45,663
26,367	2,792	29,159
133,461	20,537	153,998
6,332	135,155	141,487
19,140	8,410	27,550
2,364	11,504	13,868
-	2,569	2,569
3,539	1,920	5,459
$ 4,145,953	$ 1,150,315	$ 5,296,268

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
STATEMENT OF CASH FLOWS
Years Ended June 30, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (412,771)	$ 47,232
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	196,073	164,385
Noncash lease termination expense	-	10,186
Loss on disposition of assets	11,602	2,569
Effects of changes in operating assets and liabilities:		
Receivables	8,600	(18,993)
Supplies inventory	5,000	(7,000)
Prepaid expenses	(569)	(24,574)
Deposits	5,000	4,163
Accounts payable	112,366	(77,391)
Accrued expenses	16,653	57,670
Unearned revenue	13,552	(56,377)
Security deposits	(220)	4,500
Net cash provided by (used in) operating activities	(44,714)	106,370
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(925,346)	(972,045)
Proceeds from sale of marketable equity security	-	18,387
Net cash used in investing activities	(925,346)	(953,658)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	600,000	711,808
Payments on long-term debt	(72,018)	(42,830)
Payments on obligations under capital leases	(15,128)	(16,257)
Proceeds from notes payable to bank	534,000	-
Payments on notes payable to bank	(29,348)	-
Net cash provided by financing activities	1,017,506	652,721
NET INCREASE (DECREASE) IN CASH	47,446	(194,567)
CASH, BEGINNING OF YEAR	67,731	262,298
CASH, END OF YEAR	$ 115,177	$ 67,731

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2004 and 2003

Mid-Eastern Council on Chemical Abuse (MECCA) is a non-profit corporation created to provide education, individual and group counseling for substance abusers and their families, and to provide residential care and treatment for substance abusers in the Johnson, Iowa, Washington, Cedar, Warren, and Polk county areas. MECCA operates a detoxification unit in Iowa City, residential facilities in Iowa City and Des Moines and provides outpatient services from its clinical offices in Iowa City, Des Moines, and various satellite offices.

MECCA is primarily a fee-based provider of services. Clients pay if they are able, but a majority of the client fees are paid by third parties, such as Medicaid, insurance companies and the courts.

MECCA also provides substance abuse services through contracts with schools, counties, universities, employers and state and federal governmental organizations.

MECCA's fiscal year ends on June 30. Significant accounting policies followed by MECCA are presented below.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

NET ASSETS

Net assets are classified based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

Unrestricted
Unrestricted net assets includes all net assets which are neither temporarily or permanently restricted.

Temporarily Restricted
Temporarily restricted net assets includes contributed net assets for which donor imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2004 and 2003

ACCOUNTS RECEIVABLE

Accounts receivable are uncollateralized client and funding agency obligations which generally require payment within thirty days from the billing date. Accounts receivable are stated at the billing amount. Interest is not charged on overdue accounts. Payments of accounts receivable are applied to specific billings.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectibility of amounts billed and the aging of the accounts receivable. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts. At June 30, 2004 and 2003, the accounts receivable have been adjusted to an estimated collectible amount, resulting in a zero-balance allowance account.

PROPERTY AND EQUIPMENT

Property and equipment which were purchased are stated at their original cost and donated furniture and equipment are recorded at fair market value at the date of receipt. All fixed assets are depreciated over their estimated useful lives of three to thirty-nine years, using the straight-line method of depreciation. MECCA follows the practice of capitalizing at cost, or at fair market value if donated, all expenditures for property and equipment in excess of $500 and a useful life greater than one year.

COMPENSATED ABSENCES

MECCA employees accumulate vacation and sick leave hours for subsequent use or, in the case of vacation leave, for payment upon retirement, death or termination. MECCA has accrued a liability for compensated absences from accrued vacation at June 30, 2004 and 2003, based on rates of pay on those dates.

UNEARNED REVENUE

Conditional grants are recognized as revenue at the point the conditions are met. Unearned revenue represents grant funds that have been received but the conditions of the grant have not been met.

RECOGNITION OF CONTRIBUTION REVENUE

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Amounts received which are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the organization reports the support as unrestricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

CONTRIBUTED GOODS AND SERVICES

Contributions of donated goods are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Contributed property and equipment are recorded at estimated fair value at the date of gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

INCOME TAXES

MECCA is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides income tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes.

FUNCTIONAL EXPENSES

The costs of providing various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 1 - DEBT

Notes payable to bank

Notes payable to bank consists of the following:

	2004	2003
Note payable to bank, requiring monthly installments of $10,401, including interest at 7.31% per year, with final payment due April 5, 2005, secured by substantially all of MECCA's assets	$ 100,652	$ -
Revolving line of credit payable to bank, of which $65,000 of the maximum $100,000 was used as of June 30, 2004, with any unpaid principal and interest (at 8.95%) payable by March 28, 2005, secured by substantially all of MECCA's assets	65,000	-
Note payable to bank, requiring a single payment on the note's maturity date of October 5, 2004, including interest at 7.31%, secured by substantially all of MECCA's assets	339,000	-
Total	$ 504,652	$ -

Long-term debt

Long-term debt consists of the following:

	2004	2003
Mortgage note payable to bank, requiring monthly installments of $7,376, including interest at 7.95% per year, with final payment due December 5, 2006, secured by land and buildings located in Iowa City and Des Moines, Iowa	$ 696,202	$ 727,275
Mortgage note payable to bank, requiring monthly installments of $9,049, including interest at 7.50% per year, with final balloon payment due December 5, 2005, secured by land and building located in Iowa City, Iowa	1,198,066	1,215,362
Mortgage note payable to bank, requiring monthly installments of $4,347, including interest at 6.15% per year, with final balloon payment due October 1, 2006, secured by land and building located in Des Moines, Iowa	588,968	-
Note payable to GMAC, requiring monthly installments of $726, including interest at 8.99% per year, with final payment due November 2007, secured by a vehicle	25,560	31,677
Note payable to GMAC, requiring monthly installments of $300, with no stated interest, with final payment due July 2008, secured by a vehicle	15,000	-

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 1 - DEBT (CONTINUED)

	2004	2003
Note payable to GMAC, requiring monthly installments of $350, with no stated interest, with final payment due July 2008, secured by a vehicle	17,500	-
Non-interest-bearing, forgivable note payable to the City of Iowa City. The loan will be forgiven on June 30, 2101 as long as MECCA continues to use the property as prescribed in the loan agreement. The note becomes due if the use of the property is not consistent with the terms of the agreement. The note will be classified as long-term debt until MECCA has been relieved of its obligation to repay the loan.	345,000	345,000
Total	2,886,296	2,319,314
Less current portion	84,084	55,134
Long-term portion	$2,802,212	$2,264,180

Future maturities of long-term debt for the years ending June 30, are as follows:

2005	$ 84,084
2006	1,247,813
2007	1,196,747
2008	11,352
2009	1,300
Later years	345,000
Total	$2,886,296

NOTE 2 - OBLIGATIONS UNDER CAPITAL LEASES

MECCA is leasing office equipment under seven (five at June 30, 2003) capitalized leases which expire between April 2005 and October 2008. The leases require monthly payments ranging from $62 to $911. The total cost of the leased equipment is $84,245 and accumulated depreciation at June 30, 2004 is $19,908.

Future minimum lease payments under these leases for the years ending June 30 are as follows:

2005	$ 27,886
2006	26,254
2007	23,948
2008	17,688
2009	1,559
Total minimum lease payments	97,335
Less amount representing interest	19,888
Present value of minimum lease payments	$ 77,447

NOTE 3 - CASH FLOW DISCLOSURES

Cash paid for interest during the years ended June 30, 2004 and 2003 totaled $189,954 and $138,329, respectively.

MECCA had the following noncash operating, investing, and financing transactions:

During the current year, two vehicles were purchased for a total cost of $39,000, all of which was financed.

During the current year, MECCA entered into two capital leases and amended an existing lease for the acquisition of new photocopiers and a scanning system. The equipment was capitalized and obligations under capital leases were set up totaling $35,995.

During the year ended June 30, 2003, a vehicle was purchased for $32,120 of which $30,230 was financed. The loan, which totaled $35,000, included $4,770 of costs associated with early termination of a vehicle operating lease.

During the year ended June 30, 2003, two office equipment capital leases were terminated early. In one case, a photocopier/printer was traded in for a new model. The new photocopier was capitalized at its fair market value of $10,071 plus the remaining book value of the old photocopier, which was $4,544. An obligation under capital lease was set up totaling $12,170, which includes the remaining balance of the old lease of $2,099. In the second case, a new photocopier, with a value of $18,020, was obtained under a new capital lease. The lessor made an early termination payment to the old lessor totaling $20,493. An obligation under capital lease was set up totaling $38,513, which includes the value of the new photocopier and the termination payment.

In addition to the two new capital leases above, MECCA entered into two capital leases for the acquisition of new laser printers. The equipment was capitalized and obligations under capital leases were set up totaling $4,770.

During the years ended June 30, 2004 and 2003, interest costs of $27,616 and $10,700, respectively, were capitalized into the cost of a new building.

Accounts payable at June 30, 2004 and 2003 includes $72,672 and $5,000, respectively, of unpaid property and equipment purchases.

NOTE 4 - COMMITMENTS AND CONTINGENCY

MECCA is leasing a vehicle under a noncancelable operating lease. The lease expires January 2006 and requires monthly payments of $435.

MECCA has various office lease commitments, only one of which has a required minimum lease term in excess of one year. This long-term lease requires monthly lease payments of $500 and expires March 31, 2005. Several of the lease agreements offer options to renew and extend the lease term.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 4 - COMMITMENTS AND CONTINGENCY (CONTINUED)

Future minimum lease payments under these leases for the years ending June 30 are as follows:

2005	$ 9,716
2006	3,043
Total	$ 12,759

In the normal course of business, MECCA enters into grant agreements with subcontractors and, under the agreements, MECCA is committed to making payments to the subcontractors as services are provided. These agreements would not extend beyond a one-year period.

A substantial portion of MECCA's accounts receivable and revenue is from governmental entities under reimbursement and purchase-of-service contracts.

NOTE 5 - DISCLOSURE ABOUT CERTAIN CONCENTRATIONS

MECCA is subject to a certain degree of vulnerability due to concentrations of revenue received from a major funder. MECCA received $2,460,000 of funding from Magellan Behavioral Health for the year ended June 30, 2004.

NOTE 6 - RETIREMENT PLAN

MECCA has a defined contribution 403(b) retirement plan for its full and part-time employees. An employee is eligible to participate after completing one year of service and who is at least 21 years of age. Participation is voluntary, and MECCA contributes 50% of the employees' contribution, up to a maximum of 4% of their pay. The contribution charged to expense for the years ended June 30, 2004 and 2003 was $30,981 and $24,781, respectively.

NOTE 7 - COUNCIL RISK MANAGEMENT

MECCA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. MECCA assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three fiscal years.

NOTE 8 - SUBSEQUENT EVENT

On July 1, 2004, another non-profit organization merged into MECCA. MECCA assumed debt and took over ownership of the assets of this organization. At June 30, 2004, the organization's assets had a total book value of $147,284 and total liabilities of $127,543.

SUPPLEMENTAL INFORMATION

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SUPPLEMENTAL SCHEDULES
Year Ended June 30, 2004

Schedule of Other Grants and Contracts

Sixth Judicial District Department of Correctional Services	$ 60,255
Juvenile Crime Prevention Community Grant	32,028
Department of Veteran Affairs	93,969
State of Iowa, Adult Treatment for Meth	193,112
STAR/EHP Grant	6,962
University of Iowa SCY Grant	139,490
University of Iowa PRC Grant	21,260
Other	67,659
Total	$ 614,735

Schedule of County Revenue

Johnson County	$ 328,270
Iowa County	33,333
Cedar County	1,200
Total	$ 362,803

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2004

Grantor/Program	CFDA Number	Grant Number	Federal Expenditures
U.S. Department of Health and Human Services			
Passed through Iowa Department of Public Health:			
Consolidated Knowledge Development and Application (KD&A) Program	93.230	5884TM01	$ 193,112
Consolidated Knowledge Development and Application (KD&A) Program	93.230	5883IP15	30,379
Consolidated Knowledge Development and Application (KD&A) Program	93.230	5884IP15	66,734
Consolidated Knowledge Development and Application (KD&A) Program	93.230	5883IP25	80,892
			371,117
Substance Abuse Prevention and Treatment Block Grant Program: Comprehensive Prevention	93.959	5884CP17	146,960
Total U.S. Department of Health and Human Services			518,077
U.S. Department of Justice			
Passed through Fifth Judicial District Department of Correctional Services:			
Offender Re-Entry Program	16.202	-	8,333
Offender Re-Entry Program	16.202	-	37,625
Passed through Washington County Auditor's Office:			
Drug-Free Communities Support	16.729	2000-JN-FX-0088	58,576
Drug-Free Communities Support (Johnson Co.)	16.729	2000-JN-FX-0088	102,775
Total U.S. Department of Justice			207,309
U.S. Department of Housing and Urban Development			
Passed through City of Iowa City:			
CDBG-Medical Director	14.218	-	28,654
U.S. Department of Veterans Affairs			
Veterans Rehabilitation	64.019	V636A6P-1861	93,969
Passed through Johnson County Board of Supervisors:			
Veterans Rehabilitation	64.019	-	10,000
Passed through Iowa County Board of Supervisors:			
Veterans Rehabilitation	64.019	-	8,333
Total U.S. Department of Veterans Affairs			112,302
Total			$ 866,342

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2004

<u>Basis of Presentation</u> - The Schedule of Expenditures of Federal Awards includes the federal grant activity of MECCA and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Mid-Eastern Council on Chemical Abuse
Iowa City, Iowa

We have audited the financial statements of the Mid-Eastern Council on Chemical Abuse (MECCA) as of and for the year ended June 30, 2004, and have issued our report thereon dated August 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MECCA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect MECCA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items II-A-04 and II-B-04.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MECCA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of MECCA and other parties to whom MECCA may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of MECCA during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Clifton Gunderson LLP

Cedar Rapids, Iowa
August 30, 2005

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Directors
Mid-Eastern Council on Chemical Abuse
Iowa City, Iowa

Compliance

We have audited the compliance of the Mid-Eastern Council on Chemical Abuse (MECCA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2004. MECCA's major federal programs are identified in the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of MECCA's management. Our responsibility is to express an opinion on MECCA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MECCA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on MECCA's compliance with those requirements.

In our opinion, MECCA complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of MECCA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered MECCA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect MECCA's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings as items II-A-04 and II-B-04.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described are material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Mid-Eastern Council on Chemical Abuse and other parties to whom MECCA may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Cedar Rapids, Iowa
August 30, 2005

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SCHEDULE OF FINDINGS
Year Ended June 30, 2004

SUMMARY OF AUDITOR'S RESULTS

(a) An unqualified opinion was issued on the financial statements.

(b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, which are not considered to be material weaknesses.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

(d) Reportable conditions in internal control over the major programs were disclosed by the audit of the financial statements, which are not considered to be material weaknesses.

(e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.

(f) There were no audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133.

(g) The major programs were Consolidated Knowledge Development and Application (KD & A), CFDA Number 93.230, and Substance Abuse Prevention and Treatment Block Grant Program: Comprehensive Prevention, CFDA Number 93.959.

(h) The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

(i) Mid-Eastern Council on Chemical Abuse did not qualify as a low-risk auditee.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SCHEDULE OF FINDINGS
Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of duties - Due to a limited number of personnel performing accounting functions, MECCA does not have adequate segregation of duties over accounting transactions. As a result of this condition, there is a higher risk that errors or misappropriations could occur and not be detected within a timely period.

Recommendation - When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities. We recommend that MECCA review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We are aware of the lack of segregation of duties and have considered alternatives to improve this situation.

Conclusion - Response accepted.

II-B-04 Late Filing of Audit - OMB Circular A-133 and the Iowa Department of Public Health require that the audit be submitted within nine months following an agency's year end. The audit for the year ended June 30, 2004 was not filed within this time frame.

Recommendation - The June 30, 2004 audit should be filed as soon as possible and in the future, the audit report should be filed in a timely manner.

Response - We have generally always filed the audit in a timely manner, but this year there was a substantial amount of activity that kept the accounting staff very busy. In the future we will make every effort to meet the filing deadline.

Conclusion - Response accepted.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SCHEDULE OF FINDINGS
Year Ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

		Year ended
U.S. Department of Health and Human Services		
Consolidated Knowledge Development and Application (KD & A) Program	CFDA #93.230	June 30, 2004
Substance Abuse Prevention and Treatment Block Grant Program: Comprehensive Prevention	CFDA #93.959	June 30, 2004

III-A-04 Segregation of Duties - See item II-A-04.
III-B-04 Late Filing of Audit - See item II-B-04.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
CORRECTIVE ACTION PLAN
Year Ended June 30, 2004

The following comments and actions are provided in response to the auditor's comments for the year ended June 30, 2004.

RESPONSE TO FINDING NO. II-A-04 SEGREGATION OF DUTIES

Recommendation - When a lack of complete duty segregation exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities. We recommend that MECCA review its operating procedures to obtain the maximum internal control possible under the circumstances.

Comment/Action - We do understand and agree with the basic financial control reasons for segregating duties and will continue to ensure that we maximize the safeguards and the segregation of duties as much as possible within the constraints of a small business environment.

RESPONSE TO FINDING NO. II-B-04 LATE FILING OF AUDIT

Recommendation - The June 30, 2004 audit should be filed as soon as possible and, in the future, the audit report should be filed in a timely manner.

Comment/Action - We have generally always filed the audit in a timely manner, but this year there was a substantial amount of activity that kept the accounting staff very busy. In the future we will make every effort to meet the filing deadline.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2004

FINDING NO. II-A-03 SEGREGATION OF DUTIES

Due to a limited number of personnel performing accounting functions, the Agency still does not have adequate segregation of duties over accounting transactions. As a result of this condition, there is a higher risk that errors or misappropriations could occur and not be detected within a timely period.

FINDING NO II-B-03 LATE FILING OF AUDIT

MECCA filed the June 30, 2003 audit with the respective entities, but it was after the due date required by OMB Circular A-133 and the Iowa Department of Public Health.

October 17, 2005

Finance Committee
Mid-Eastern Council on Chemical Abuse
1539 South Gilbert Street
Iowa City, Iowa 52240

The purpose of this letter is to provide you with information about significant matters related to our audit of the financial statements of the Mid-Eastern Council on Chemical Abuse for the year ended June 30, 2004, in order to assist you with your oversight responsibilities of the financial reporting process, and so that we may comply with our professional responsibilities to the Finance Committee. This letter is intended solely for the use of the Finance Committee and is not intended to be and should not be used by anyone other than this specified party.

In accordance with *Government Auditing Standards*, we have also issued a combined report dated August 30, 2005 on our consideration of MECCA's internal control and on its compliance with laws, regulations, contracts and grants.

Auditor's Responsibility Under Generally Accepted Auditing Standards. Our audit of the financial statements of MECCA for the year ended June 30, 2004, was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Reasonable assurance in an audit is obtained by examining evidence supporting the amounts and disclosures in the financial statements on a test basis. An audit does not include verification of all transactions and account balances, nor does it represent a certification of the absolute accuracy of the financial statements.

In testing whether the financial statements are free of material misstatement, we focus more of our attention on items with a higher potential of material misstatement, and less on items that have a remote chance of material misstatement. For this purpose, accounting literature has defined materiality as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Although we may make suggestions as to the form and content of the financial statements, or even prepare them in whole or in part, the financial statements remain the representations of management. In an audit, our responsibility with respect to the financial statements is limited to forming an opinion as to whether the financial statements are a fair presentation of MECCA's financial position, change in net assets, and cash flows.

Significant Accounting Policies. There were no significant accounting policies or their application which were either initially selected or changed during the year.

There were no significant, unusual transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates. There were no significant accounting estimates of financial data which would be particularly sensitive and require substantial judgments by management.

Significant Audit Adjustments. The following is a description of the adjustments arising from the audit that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process. There were in excess of thirty audit adjustments made for this year.

- Entries were made to record depreciation and current year fixed asset dispositions and to adjust for new fixed assets.
- An entry was made to reclassify capital lease payments that were made during the year.
- An entry was made to record the financed purchase of a new vehicle.
- An entry was made to adjust the cafeteria plan liability.
- An entry was made to accrue real estate taxes.
- An entry was made to reclassify miscellaneous revenue amounts.
- Entries were made to adjust accounts receivable.
- Entries were made to adjust accounts payable.
- Entries were made to adjust prepaid expenses.
- An entry was made to capitalize construction period interest expense.
- An entry was made to gross up the grant revenue and subcontract expense under a meth grant.
- Entries were made to reclassify credit card expenditures.

Disagreements With Management. There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to MECCA's financial statements or our report on those financial statements.

Consultations With Other Accountants. We were informed by management that they made no consultations with other accountants on the application of generally accepted accounting principles or generally accepted auditing standards.

Major Issues Discussed With Management Prior to Retention. There were no major issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Difficulties Encountered in Performing the Audit. We encountered no serious difficulties in dealing with management related to the performance of our audit.

We will be pleased to respond to any questions you have regarding the foregoing comments.

Clifton Gunderson LLP